# January Loss Analysis: 2018 Opens with Lower Severity and Volume

The New Year is off to a hot start as liquidation activity dipped substantially in January compared to the levels reported for the previous two months. A total of 39 loans with a combined balance of $595.4 million were disposed in January, which amounts to an average loan size of $15.3 million. While December produced one of the highest loss percentages ever recorded in our calculations, loss severity in January dipped more than 26 percentage points to an eight-month low of 35.02% across all loans.

**CHART 1:** TOTAL CMBS LOSSES - LAST SIX MONTHS

| DATE | LOAN COUNT | LOAN BALANCE | REALIZED LOSSES | LOSS SEVERITY |
|---|---|---|---|---|
| August – 17 | 59 | $495,050,942 | $217,138,225 | 43.86 |
| September – 17 | 47 | $478,393,985 | $208,331,027 | 43.55 |
| October – 17 | 37 | $609,627,651 | $219,312,601 | 35.97 |
| November – 17 | 54 | $881,149,509 | $483,961,818 | 54.92 |
| December – 17 | 76 | $1,021,319,349 | $627,513,095 | 61.44 |
| January – 18 | 39 | $595,436,476 | $208,506,174 | 35.02 |

Four CMBS notes totaling $31.0 million were written off with 100% or more in losses. Secured by a 450,090 square-foot, REO suburban office in Longmont, Colorado, the $44.0 million Maxtor Campus incurred the highest loss out of all January disposals with a loss severity of 86.57%. According to servicer notes, the collateral had been 100% vacant since sole tenant Seagate Technology vacated the facility prior to lease expiration in March 2016. The property fell into foreclosure that same year and was most recently tagged with a valuation of $6.2 million in late 2016, which was down significantly from the $67 million appraised value assigned to the asset in 2006. The loan comprised more than one-fifth of the remaining collateral behind CSMC 2006-C4 at resolution.

**CHART 2:** JANUARY AVERAGE LOSS SEVERITY BY PROPERTY TYPE - ALL LOANS

| PROPERTY TYPE | LOAN COUNT | LOAN BALANCE | REALIZED LOSSES | LOSS SEVERITY |
|---|---|---|---|---|
| RT | 16 | $121,617,869 | $84,689,079 | 69.64 |
| OF | 14 | $373,148,280 | $103,996,308 | 27.87 |
| MF | 4 | $20,475,400 | $12,259,346 | 59.87 |
| IN | 4 | $22,498,972 | $7,253,383 | 32.24 |
| MU | 1 | $57,695,955 | $308,059 | 0.53 |
| **Total** | **39** | **$595,436,476** | **$208,506,174** | **35.02** |

Although the office sector had a relatively low loss severity of 27.9% in January, office notes incurred the highest realized loss total of the month with $104.0 million. That accounts for about 50% of the aggregate realized losses tied to all property sectors last month. A noteworthy office disposal was the $20.0 million 1757 Tapo Canyon Road note, which was written off with a 68.9% severity. The loan represented 14.3% of MSC 2006-T21, and its collateral was a 179,357 square-foot suburban office located in Simi Valley, California. The office was 100% leased to Bank of America until the tenant vacated at lease expiration in August 2015. The property was foreclosed in March 2017. Another office note to be liquidated with a loss was the $63.5 million Canyon Park Technology Center loan, which comprised 61.4% of LBUBS 2006-C4. A low-rise, suburban office located in Orem, Utah served as loan collateral. The office struggled with occupancy levels below 50%, but the note was resolved with just 10.7% in losses. The $50.8 million 1 Allen Bradley Drive also paid off last month with a very light 0.07% loss, which helped bring the overall office loss severity rate down.

Retail loans had the next-highest realized loss amount with $84.7 million last month. That translates to an average loss severity of 69.6%, the highest of any property type in January. Two retail loans that were disposed with losses of 100% or more were the $15.2 million Marketplace College Ave. loan and the $11.7 million Playtogs Plaza note. The first of those two was secured by a shopping center in Appleton, Wisconsin that struggled with low occupancy and DSCR levels well below the 1.0x threshold since 2012. The note took a complete loss and made up 76.5% of BACM 2006-6. The Playtogs Plaza note was resolved with an even more severe 144.4% severity. The underlying shopping center in Middletown, New York had been REO since 2014 due to low occupancy following the departure of a grocery anchor tenant. However, the $11.7 million note only comprised 2.4% of CSMC 2007-C1.

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